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UNITED STATES DEPARTMENT OF AGRICULTURE  
Agricultural Marketing Service

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TOBACCO INSPECTION SERVICE  
IN RELATION TO  
IMPROVEMENTS IN THE AUCTION MARKETING SYSTEM

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The possibility of significant changes in the auction system of marketing tobacco appears to be involved in certain new applications of the Federal inspection service that are cropping up. In one of the Burley tobacco markets which had the tobacco inspection service in the 1938-39 season, warehousemen combined small lots of tobacco on the basis of Federal grades and settled with the growers on the basis of the average price shown in the daily price reports which we issue. A somewhat similar procedure was followed on another market which did not have the inspection service but utilized the services of a man who studied the Federal grades and was able to apply them quite well. On another inspection market, when the growers got a bad sale and were dissatisfied, one warehouseman settled with them on the basis of our grades and our published grade averages. He re-sold the tobacco and broke even. The farmers liked this arrangement and that warehouseman's business boomed. This year on still another inspection market, the warehousemen have jointly rented a small warehouse to which all of them will transfer their small lots. In this supplemental warehouse these lots will be commingled into larger ones, sold, and settlement made with the growers on the basis of the grade average for the floor. On one very important Burley market, one warehouseman has recently engaged the services of a Federal inspector for a few days prior to the opening of the market to commingle small lots.

Now what does this all add up to and what does it indicate for the future? To my mind it adds up to a realization of the fact that Federal tobacco inspection service may be the key to unlock some of the marketing problems that pertain to the auction system, and it indicates that the unlocking process is already under way.

As a matter of policy, we in the Agricultural Marketing Service have always avoided advocating changes in the auction marketing system, although we have recognized from the beginning that tobacco inspection and market news were likely to have a direct bearing on the method of marketing and might lead eventually to important changes. The changes that have already

been initiated and others to which they may give rise should be looked upon as a natural process of evolution. If to some it may seem that our attitude has been unduly aloof on this subject, I can only say that it is our firm belief that the auction system is fundamentally sound, and that changes in it should be approached cautiously. We believe such changes as are adopted will be sounder in character and more enduring if initiated by those most directly concerned after full consideration of the advantages and disadvantages likely to accrue. We believe any attempt to force or hasten changes might result in considerable injury to individuals of particular groups and do harm to the cause of progress in tobacco marketing methods. With all this in mind I am undertaking to analyze in a brief way some of the developments that have taken place and their implications as to the future.

Tobacco inspection was inaugurated for the primary purpose of improving the marketing position of the tobacco grower, by better enabling him to guard against acceptance of prices unreasonably below current grade averages. This, as we have preached in season and out, would be the logical result of putting into the hands of the grower an unbiased determination of the quality or grade of his tobacco together with authentic information on its current value as determined from a large number of actual sales of the same grade. This aspect of the service and this definition of its character have been discussed so many times in the past that they will not be elaborated further here.

Certain collateral effects of the service were noticeable from the outset. In the first place, the profession of speculating - the operations of the so-called "pinhooker" - began to be less profitable. The speculators have found it increasingly difficult to pick up the bargains on the auction floors which resulted from growers' lack of information on the value of their tobacco, and to reap the profits that the growers themselves were entitled to receive. In the second place, to the extent that warehousemen themselves have grasped the opportunity to start their sales more uniformly in line with the current values, the sales have become smoother and the wide fluctuations in prices for like quality have been noticeably reduced. Such fluctuations have not been altogether eliminated, however, and this fact is related to one of the suggestions insistently made by growers, which will be discussed in a moment.

What are the newer developments that appear to be significant? One of the most interesting of them was the adoption by warehousemen at one market last year of the practice of combining small lots of the same grade in order to save floor space and economize in time and cost of selling. The importance of this from the warehouseman's standpoint is that it costs him as much to sell thirty or forty pounds of tobacco as it does to sell two or three hundred pounds. A small lot not only occupies the same space on the warehouse floor as a large one, but it requires the same amount of book work, selling expense, and auction time. Small lots therefore have the effect of reducing the volume which can be sold in a day without a corresponding reduction in costs, thereby proportionately reducing the warehouseman's profits. By combining the small lots, greater speed and economy are attained.

Two methods have been suggested for eliminating small lots by combining them on the basis of grade: (1) by an arrangement whereby the warehouseman buys the small lots from the grower and settles with him on the basis of the published average price for the grade, after which he combines the lots by grades and resells them at auction as house tobacco; or (2) by having an understanding or agreement with the farmer-owners that small lots will be combined or commingled by the warehouseman according to Federal grades, and that all lots of the same grade so combined will be sold and settlement made with growers on the basis of the average daily price received for the particular grade. This may be either more or less than the grade average shown in the price report.

In the first case the warehouseman takes the risk of a loss in case the tobacco sells for less than the grade average, or gets an additional profit if it sells above the grade average. This was the procedure followed at the market referred to above, and apparently the results were satisfactory to the warehousemen and growers alike. On the one hand, the warehousemen were enabled to conduct their sales more economically and expeditiously. On the other hand, the growers were assured of getting the current market price according to grade, and those living some distance from the market did not have to wait for the results of the auction to receive payment. Furthermore, the buyers were relieved of bidding on ridiculously small lots. Everybody was happy.

The second method, I am informed, will be put into operation this year at one Burley market. Under the plans which seem to have been adopted on this market, the warehousemen have jointly leased a small floor to which, with the consent of the growers, they will transfer the small lots. Here they will be commingled on the basis of grade and settlement will be made with the growers according to the average grade price for the day's sale on the floor. Forms have been printed which set forth the proposed procedure and embody a request upon the warehouseman to receive and handle the tobacco accordingly. One of these forms is to be signed in duplicate in connection with each lot involved.

The significance of these procedures, especially the last one, should not be overlooked, that is, combining the small lots and settling with each grower according to the average price for all the day's sales of the same grade. They introduce for the first time the principle of pooling into the auction system of marketing tobacco. If this can be done as a means of eliminating small lots - the bane of every warehouseman's existence - then logically it can be done on a broader scale with larger lots. This possibility has been recognized for a number of years by growers and by some warehousemen, namely, that lots could be arranged on the warehouse floor according to grade and sold in blocks of such size as circumstances might require. Here we are getting into the consideration of a fundamental change in the marketing system. ✓

The pooling of tobacco on an auction warehouse floor seems to offer certain manifest advantages that are worthy of mention. In the first place,

since the warehouseman, the auctioneer, and the buyers would not be dealing with a single basket but with ten, twenty, or an even larger number of baskets as the unit of sale, more time could be given to buyers for the examination of the tobacco, the bidding would not have to be so rushed, and errors of judgment would be less frequent. The point of special interest to the growers is that by reason of these conditions the price fluctuations for tobacco of the same grade would be reduced to a minimum. This implies, of course, that each block to be treated as a separate sales unit would be set out according to grade so that the baskets in the block would represent a reasonably uniform blend of tobacco having like character; and that any block or grade-pool would be of a reasonable size so that the smaller buyer would not be eliminated or handicapped by having to buy in excess of his requirements. There is good reason to believe that such a procedure, if certain difficulties can be overcome, would not only smooth out prices, but would accomplish the rather paradoxical result of a slower selling pace without a sacrifice of speed in selling out a floor of tobacco. Settlement with the grower presumably would be made on the basis of the price paid for the particular blocks into which his tobacco had been placed.

With this brief mention of the advantages that seem to pertain to this method of selling, consideration must be given to the difficulties involved. These relate, first, to the questions of handling on the warehouse floor and, second, to the conditions of buying. For fear the proponents of block selling may not have fully considered these and as a brake on rushing headlong into the field of change, I shall emphasize the difficulties to be surmounted.

Space Problems. In some districts, especially the flue-cured, growers customarily deliver their tobacco from early morning until late at night, especially during the earlier part of the marketing season. In these districts the tobacco can be unloaded, placed in the baskets, weighed, and placed in rows on the warehouse floor regardless of the conditions of light. Artificial light is frequently used for these operations. No delay occurs in filling up the floor other than that imposed by the limitations of the warehouse force for handling the tobacco.

A new set of conditions is involved, however, in arranging the tobacco on the floor by grades. It must first be inspected and then trucked to that portion of the floor allotted for the particular grade. Manifestly, the inspection can only be done when daylight has become adequate for examination of the tobacco. This would seem to make it necessary, in case of deliveries made when light is inadequate for inspection, that the tobacco be weighed and stacked up at one end of the warehouse or in supplemental warehouse space until the light was adequate for inspecting it. Then the tobacco would have to be trucked past the inspectors for examination and trundled thence to its allotted space on the sales floor. This would represent an extra handling of the tobacco and therefore some extra expense and perhaps some confusion. At first consideration this might seem to involve a greater requirement of available space than under present conditions. This might not necessarily follow, since after inspection and distribution on the floor according to grade, small lots of a similar grade might be packed together with some saving of space. If it is assumed that space requirements

would be increased, however, that disadvantage would be offset by the possibility that buyers would be able to complete operations in each warehouse in less time, which, if true, would mean that less time would elapse between sales at any one warehouse. It appears that from 10 to 20 baskets, when combined into one sales unit, could be examined and sold in about half the time it would take to sell individually the same number of baskets. This might insure many warehousemen of being able to run a sale each day who, under present conditions, have to wait two, three, or more days for the buyers to reach their floors. Too much stress should not be placed on increasing the rate at which tobacco now flows to market, however, since this would involve major problems for the buyers and would require an increase in their handling, trucking, conditioning, packing, and warehousing facilities. Tobacco should never be sold at a rate in excess of the capacity of available facilities for rehandling and conditioning. After all, the goal is not more rapid selling, but rather more time for buyers to examine the tobacco and more uniform prices.

Buyers' Problems. In addition to the problems mentioned, another most likely to arise from the standpoint of the buyers comes from the fact that a single grade of tobacco cannot be made so narrow in its scope or so precise in its application that all of the tobacco placed in it will be of uniform character and will measure up to the requirements or preferences of any one company. To state it differently, a buyer might maintain that although all of the tobacco was in the same Government grade, some of it represented a side of the grade or was so mixed that it would not suit his company.

An objection on these grounds would be valid, at least within certain limits, but instead of being an insurmountable obstacle it suggests one necessity that might develop in connection with the inspection work. It might be necessary, after the tobacco had been inspected and placed in blocks, that it be re-inspected: first, to pick out any errors in grading, and second, to separate it into two or more smaller blocks by which to achieve greater uniformity.

Uniformity of tobacco in the block or sales unit has been referred to several times. Granting that in all other respects the problems of block selling can be solved, and that growers, warehousemen, and buyers are agreed that it would be a desirable forward step in auction marketing procedure, success or failure will almost certainly depend on ability to maintain a high degree of uniformity among the baskets of tobacco composing the block. The point is of such vital importance that attention should be directed to some of the factors involved.

Tobacco inspection can go a long way toward bringing together tobacco of like quality. Perhaps it is not too much to say that by inspection and re-inspection a satisfactory degree of uniformity can be attained for the block selling of part of the tobacco delivered - for so much of it, that is, as was properly sorted before being brought to market. But no amount of inspection can make a uniform block out of tobacco that represents a mixture of grades in the bundle or in the lot. In re-inspection, therefore, it

would be necessary to make a separation of carefully sorted tobacco and that sorted by slipshod methods. Otherwise, the buyers would discount the block and the good baskets would be penalized.

The farther our inspection work proceeds the more we become conscious of the imperative need for more careful sorting of tobacco on the farm, and educational work by which to bring about improvement there has become one of our major activities. To illustrate what poor sorting means to growers, I have been reliably informed that one manufacturer employs 1,400 people to resort tobacco that growers delivered to market in mixed lots. This company maintains that it costs them nothing, but costs the growers from \$2.00 to \$2.50 a hundred.

All of this bears on our problem of re-inspecting tobacco to insure reasonable uniformity within the block. It is an indispensable condition if buyers are to bid with assurance.

Aside from the question of uniformity, objection might be raised that the selling of tobacco in relatively large lots or blocks would eliminate those buyers interested only in small quantities of a particular grade. This appears to be a question of adjusting the size of the block or grade pool.

There are certain other problems that should be mentioned. For example, a system of selling such as is here discussed might interfere with the farmer being present at the sale of his tobacco. Under present conditions he has it arranged in a solid block of a few baskets to a few rows on a warehouse floor and can readily be present at the sale. This will be difficult, to say the least, with his tobacco scattered in different pools on the warehouse floor. Another difficulty, although perhaps a minor one, that will be imposed upon the warehousemen as a result of this scattered arrangement of an individual grower's tobacco relates to the bookkeeping and pay-off.

A variation of the above method of sale which has been proposed by numerous practical warehousemen and by at least one well-known dealer, is the provision in the center of the warehouse of a space either open or enclosed, with adequate skylight where the buyers would be stationary and the tobacco carried past them by belt conveyor or otherwise after it has first been inspected and arranged by grade. As a matter of fact this procedure would not be dependent upon inspection. The proposition sounds interesting, especially in its provision for a stationary buying force operating under a uniform light. Some of the irregularities of prices under the present system are due to the variable conditions of light. The mechanical difficulties of handling the tobacco by this system seem to be greater than those involved in the methods previously discussed. It is something to think about.

I have endeavored to point out some of the advantages and difficulties involved in the various proposals which have come to my attention. They have to do with a marketing system that, with all its defects, is sound in principle. Furthermore, they have to do with possible methods of modernizing and streamlining the auction marketing system for greater efficiency. As such, they deserve to be considered and made a matter of open discussion on the part of all concerned - growers, warehousemen, and buyers. The difficulties have been emphasized, not to frighten off favorable consideration of the possibilities for improving the auction system, but rather to ward off so far as possible the discouragements that might result from ill-considered experiments.

No doubt there will at once arise in some minds apprehension that the Government will step in and attempt to force marketing changes. Nothing is less likely to happen. If the auction system is ever modified in the direction I have discussed, it will be as the result of voluntary acceptance by growers, warehousemen, and buyers, and not as the result of compulsion from any source whatsoever. The ultimate adoption of block selling, it seems to me, will be dependent upon the answers to three questions:

1. Will it promote greater uniformity of prices  
paid to growers, grade considered?
2. Will it promote greater efficiency and economy  
in the purchasing of tobacco?
3. Is it feasible and desirable from the standpoint  
of practical warehouse management?

Unless all three questions can be answered in the affirmative, no degree of compulsion could bring block sales into operation. On the other hand, if all three can be answered in the affirmative, block sales will come about gradually and inevitably, without the need for compulsion.

Finally, lest some of my friends in the warehouse business experience something in the nature of a chill, let me add my conviction that whatever changes are made along these lines will spring largely from the initiative of warehousemen themselves. It is for them to determine whether the answer to question 3 is Yes or No.

